



# NEWS RELEASE

CALIFORNIA STATE TREASURER PHILIP ANGELIDES

**FOR IMMEDIATE RELEASE**  
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**NATION'S LARGEST PUBLIC PENSION FUND ACTS  
AGAINST CORPORATE MISCONDUCT**  
*CalPERS approves Treasurer Angelides' proposed reforms*

**SACRAMENTO, CA** – The California Public Employees' Retirement System (CalPERS) today gave approval to reforms proposed by California State Treasurer Philip Angelides, a CalPERS Board member, which are intended to root out conflicts of interest by money managers and investment banks working for the \$137 billion fund.

CalPERS' action was taken at the request of Angelides, who announced on July 1 that he would apply a new set of "Investment Protection Principles" to investment banks doing business with the Treasurer's Office. The Treasurer manages the State's \$45 billion Pooled Money Investment Account comprised of State and local taxpayer funds, and selects investment banks to handle State bond sales – projected to exceed \$25 billion this year alone.

In the first coordinated action of its kind by major institutional investors, Angelides, New York Comptroller Carl McCall and North Carolina Treasurer Richard Moore in July called upon investment bank and money managers to comply with the reforms contained in the recent agreement between New York Attorney General Eliot Spitzer and Merrill Lynch & Co., or risk losing the right to do business with their respective States.

"Our first, second and third priorities are to protect pensioner and taxpayer dollars. CalPERS sent a strong signal today that we will demand the highest standards of integrity and ethical conduct from the firms that handle our investments," Angelides said.

With today's action, the nation's three largest public pension funds – CalPERS, the New York State Common Retirement Fund, and the California State Teachers' Retirement System (CalSTRS) – have now adopted the "Investment Protection Principles". To date, public investment funds with assets of more than \$400 billion have formally enacted the principles. On August 12, Angelides, McCall and Moore convened a meeting in New York of state and local investment officials from 14 states to urge widespread adoption of these reforms and to consider other collective actions to restore integrity to the financial marketplace.

The Treasurer, noting that CalPERS and CalSTRS together lost \$850 million on failed WorldCom investments alone, voiced the need for institutional investors to take direct, decisive action against corporate misconduct. "As institutional investors, we must wield our consumer power in the marketplace to clean-up the abuses that have harmed pensioners, taxpayers, and our economy. While new federal laws and regulations will help restore integrity to the financial markets, continued vigilance by investors is needed to fully realize the promise of reform."

A copy of the reforms adopted by CalPERS today is attached.

**STATE AND PUBLIC PENSION FUND**  
***INVESTMENT PROTECTION PRINCIPLES***

- A. Every financial organization that provides investment banking services and is retained or utilized by the California Public Employees' Retirement System (CalPERS) should adopt the terms of the agreement between Merrill Lynch & Co., Inc. and New York State Attorney General Eliot Spitzer dated May 21, 2002 (hereinafter "the Investment Protection Principles"). In retaining and evaluating any such financial organization, CalPERS will give significant consideration to whether such organization has adopted the Investment Protection Principles.

The Investment Protection Principles are as follows:

- sever the link between compensation for analysts and investment banking;
- prohibit investment banking input into analyst compensation;
- create a review committee to approve all research recommendations;
- require that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination;
- disclose in research reports whether a firm has received or is entitled to receive any compensation from a covered company over the past twelve months; and,
- establish a monitoring process to ensure compliance with the principles.

- B. CalPERS will give significant consideration in retaining and evaluating active equity managers and fixed income managers (only with respect to items 1, 4, 5 and 6 below) as to whether such managers conform to the following:

1. Money management firms must disclose any client relationship, including management of corporate 401(k) plans, where the money manager could invest CalPERS' assets in the securities of the client. In the cases where the asset management firm may be affiliated with or owned by another firm, this item pertains strictly to the clients of the asset management operation as long as item 4 (below) is satisfied. In cases where confidentiality agreements exist that prohibit the disclosure of a client relationship, disclosure should be made in such a way as to not violate the confidentiality agreement.
2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients. Disclosure of the parameters of the compensation plans for portfolio managers and analysts is adequate to address this item. This disclosure is intended to apply strictly to the money management firm, not to affiliated companies.

3. Money management firms shall report quarterly the amount of commissions paid related to CalPERS' assets to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced they have adopted the Investment Protection Principles.
4. Money management firms affiliated with banks, investment banks, insurance companies or other financial service corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firm. Each manager to which this point applies shall provide CalPERS with a copy of the safeguards plan and shall certify annually to CalPERS that such a plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditor also provides consulting or other services to the company. It will be considered consistent with this point to evaluate these issues as a component of the risk profile of an investment in the subject company.
6. In deciding whether to invest CalPERS assets in a company, money management firms must consider the corporate governance policies and practices of the subject company. It will be considered consistent with this point to evaluate these issues as a component of the risk profile of an investment in the subject company.

The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.